BANCA INTESA
(CLOSED JOINT-STOCK COMPANY)

Consolidated financial statements

Year ended 31 December 2014
Together with Auditors’ report

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors

BANCA INTESA (CLOSED JOINT-STOCK COMPANY)

We have audited the accompanying consolidated financial statements of BANCA INTESA (CLOSED JOINT STOCK COMPANY) and its subsidiary (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: BANCA INTESA (CLOSED JOINT-STOCK COMPANY).

Registered by the Central Bank of Russian Federation on 31 December 1992, Registration No. 2216.

Entered in the Unified State Register of Legal Entities on 11 September 2002 by Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027739177377, Certificate series 77 No. 010860133.

Address of the audited entity: 2, Petroverigsky pereulok, Moscow, Russian Federation, 101000.

Auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Report of findings from procedures performed in accordance with the requirements of Article 42 of Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity

Management is responsible for the Bank's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Bank's compliance with mandatory ratios as at 1 January 2015 as established by the Bank of Russia; and
- compliance of elements of the Bank's internal control and organisation of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to enquiries, analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Bank's compliance with mandatory ratios as established by the Bank of Russia, we found that the Bank's mandatory ratios as at 1 January 2015 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank other than those which we considered necessary to enable us to express an opinion as to whether the Bank's consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of the Bank's internal control and organisation of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2014, the Bank's internal audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

- the Bank's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;

- as at 31 December 2014, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2014, which cover the Bank's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

- as at 31 December 2014, the Board of Directors and the Management Board of the Bank had responsibility for monitoring the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application during 2014 the Board of Directors and the Management Board of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

Our procedures with respect to elements of the Bank's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
КПМГ
KPMG
Г.Р.№011585
МОСКВА

Malyutina M.S.

Director, (power of attorney dated 1 October 2013 No. 77/13)

ZAO KPMG

Moscow, Russian Federation

27 February 2015

Consolidated statement of financial position

As at 31 December 2014

(Thousands of Russian Roubles)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	4	6 432 026	4 214 193
Mandatory cash balances with the Central Bank of the Russian Federation		285 274	301 518
Amounts due from credit institutions	5	2 252 072	5 030 092
Available-for-sale securities:			
- held by the Bank	6	1 998 473	1 941 671
- pledged under sale and repurchase agreements	6	-	791 265
Derivative financial assets	7	30 436	20 606
Loans to customers	8	56 889 512	51 138 035
Net investments in finance leases	9	1 308 414	1 259 289
Property and equipment	10	464 445	453 969
Intangible assets	11	706 324	859 232
Current income tax assets		18 722	88 403
Deferred income tax assets	12	106 696	65 509
Tax assets other than income tax		19 761	108 660
Other assets	14	1 443 248	815 109
Total assets		**71 955 403**	**67 087 551**
Liabilities			
Amounts due to credit institutions	15	20 984 240	16 223 249
Amount due to the Central Bank of the Russian Federation		-	728 298
Derivative financial liabilities	7	79 161	6
Amounts due to customers	16	18 717 308	18 722 956
Debt securities issued	17	5 972 196	8 140 048
Other borrowed funds	18	11 174 828	8 092 697
Current income tax liabilities		2 014	2 607
Tax liabilities other than income tax		22 418	74 462
Other liabilities	14	419 448	357 697
Subordinated debt	19	703 230	590 732
Total liabilities		**58 074 843**	**52 932 752**
Equity			
Share capital	20	10 820 181	10 820 181
Other capital reserve		1 803 914	1 803 914
Revaluation reserve for available-for-sale securities		(51 698)	8 466
Retained earnings		1 308 163	1 522 238
Total equity		**13 880 560**	**14 154 799**
Total equity and liabilities		**71 955 403**	**67 087 551**

Signed and authorised for release on behalf of the Board of Directors of the Bank

Olga Lein — Acting Chairman of the Management Board

Tatyana Pavlycheva — Head of Accounting, Planning and Control Group/Chief accountant

27 February 2015

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2014

(Thousands of Russian Roubles)

	Notes	2014	2013
Interest income			
Loans to customers		6 817 391	7 056 988
Net investments in finance leases		237 847	242 814
Amounts due from credit institutions		93 895	110 097
Available-for-sale securities		171 556	163 740
		7 320 689	**7 573 639**
Interest expense			
Amounts due to credit institutions		(1 669 064)	(1 490 806)
Other borrowed funds		(449 603)	(421 896)
Debt securities issued		(612 939)	(750 811)
Amounts due to customers		(253 113)	(410 989)
Subordinated debt		(20 301)	(20 250)
		(3 005 020)	**(3 094 752)**
Net interest income		**4 315 669**	**4 478 887**
Impairment of loans and net investments in finance leases	8, 9	(1 318 253)	(1 333 555)
Net interest income after impairment of loans and net investments in finance leases		**2 997 416**	**3 145 332**
Fee and commission income		866 349	865 830
Fee and commission expense		(124 037)	(143 102)
Net fee and commission income	22	**742 312**	**722 728**
Net gain from trading securities		-	79
Net (losses) gains from available-for-sale securities		(746)	302
Net gains from foreign currencies:			
- dealing		(59 806)	(116 467)
- translation differences		465 023	528 591
Net losses from other operating activities	23	(77 118)	(108 200)
Operating income		**4 067 081**	**4 172 365**
Personnel expenses	24	(1 794 779)	(1 736 119)
Other general administrative expenses	24	(1 554 642)	(1 586 919)
Depreciation and amortisation	10, 11	(540 000)	(545 016)
Other impairment and provisions	13	(159 312)	(75 103)
Profit before income tax		**18 348**	**229 208**
Income tax expense	12	(3 684)	(49 711)
Profit for the year		**14 664**	**179 497**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
- Net change in fair value of available-for-sale securities		(60 786)	(6 018)
- Net change in fair value of available-for-sale securities transferred to profit or loss		622	(242)
Total other comprehensive loss for the year, net of income tax		**(60 164)**	**(6 260)**
Total comprehensive (loss) income for the year		**(45 500)**	**173 237**

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Tatyana Pavlycheva — Head of Accounting, Planning and Control Group/Chief accountant

27 February 2015

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Consolidated statement of changes in equity

For the year ended 31 December 2014

(Thousands of Russian Roubles)

	Share capital	*Other capital reserve*	*Revaluation reserve for available-for-sale securities*	*Retained earnings*	*Total equity*
Balance as at 1 January 2013	**10 820 181**	**1 803 914**	**14 726**	**2 226 851**	**14 865 672**
Total comprehensive income					
Profit for the year	–	–	–	179 497	**179 497**
Other comprehensive loss					
Net change in fair value of available-for-sale securities, net of income tax	–	–	(6 018)	–	**(6 018)**
Net change in fair value of available-for-sale securities transferred to profit or loss, net of income tax	–	–	(242)	–	**(242)**
Total other comprehensive loss			(6 260)	–	**(6 260)**
Total comprehensive income for the year	–	–	(6 260)	179 497	**173 237**
Dividends declared and paid	–	–	–	(884 110)	**(884 110)**
Balance as at 31 December 2013	**10 820 181**	**1 803 914**	**8 466**	**1 522 238**	**14 154 799**
Total comprehensive loss					
Profit for the year	-	-	-	14 664	14 664
Other comprehensive loss					
Net change in fair value of available-for-sale securities, net of income tax	-	-	(60 786)	-	**(60 786)**
Net change in fair value of available-for-sale securities transferred to profit or loss, net of income tax	-	-	622	-	**622**
Total other comprehensive loss	-	-	(60 164)	-	**(60 164)**
Total comprehensive loss for the year	-	-	(60 164)	14 664	**(45 500)**
Dividends declared and paid	-	-	-	(228 739)	**(228 739)**
Balance as at 31 December 2014	**10 820 181**	**1 803 914**	**(51 698)**	**1 308 163**	**13 880 560**

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Olga Lein — Acting Chairman of the Management Board

Tatyana Pavlycheva — Head of Accounting, Planning and Control Group/Chief accountant

27 February 2015

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2014

(Thousands of Russian Roubles)

	Note	*2014*	*2013*
Cash flows from operating activities			
Interest received		6 935 251	7 337 582
Interest paid		(3 007 614)	(3 035 363)
Fees and commissions received		859 993	869 133
Fees and commissions paid		(121 764)	(128 900)
Net receipts from trading securities		-	79
Net payments from dealing in foreign currencies		(31 681)	(137 067)
Net payments for other operating activities		(53 377)	(38 226)
Personnel expenses paid		(1 781 663)	(1 713 671)
Other general administrative expenses paid		(1 575 250)	(1 588 737)
Cash flows from operating activities before changes in operating assets and liabilities		**1 223 895**	**1 564 830**
Net decrease (increase) in operating assets			
Mandatory cash balances with the CBR		16 241	73 477
Amounts due from credit institutions		4 634 116	7 503 152
Loans to customers		(1 801 388)	2 516 156
Net investments in finance leases		(32 424)	(138 573)
Other assets		(466 610)	(89 338)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		3 194 275	(11 041 639)
Amounts due to the CBR		(728 298)	-
Amounts due to customers		(2 911 915)	(1 459 166)
Debt securities issued		(2 139 375)	-
Other liabilities		18 690	(163 888)
Net cash flows from (used in) operating activities before income tax		**1 007 207**	**(1 234 989)**
Income tax refund		47 635	(220 409)
Net cash flows provided from (used in) operating activities		**1 054 842**	**(1 455 398)**
Cash flows from investing activities			
Purchase of property and equipment		(100 796)	(91 385)
Proceeds from sale of property and equipment		6 993	4 841
Purchase of intangible assets		(303 238)	(181 123)
Purchase of available-for-sale securities		(738 642)	(1 007 584)
Proceeds from sale and redemption of available-for-sale securities		1 400 286	1 331 934
Net cash flows provided from investing activities		**264 603**	**56 683**
Cash flows from financing activities			
Dividends paid		(228 739)	(884 110)
Proceeds from other borrowed funds		-	1 750 000
Repayment of other borrowed funds		-	(2 731 874)
Repayment of subordinated debt		(245 293)	-
Net cash flows used in financing activities		**(474 032)**	**(1 865 984)**
Effect of exchange rates changes on cash and cash equivalents		1 372 420	591 772
Net increase (decrease) in cash and cash equivalents		**2 217 833**	**(2 672 927)**
Cash and cash equivalents as at the beginning of the year		4 214 193	6 887 120
Cash and cash equivalents as at the end of the year	4	**6 432 026**	**4 214 193**

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Tatyana Pavlycheva — Head of Accounting, Planning and Control Group/Chief accountant

27 February 2015

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of BANCA INTESA (CLOSED JOINT-STOCK COMPANY) and its subsidiary, ZAO “Intesa Leasing”, together referred to as the “Bank”.

BANCA INTESA (CLOSED JOINT-STOCK COMPANY) is a commercial bank organised in the form of a closed joint-stock company under the laws of the Russian Federation.

The Bank, formerly known as KMB BANK (CLOSED JOINT-STOCK COMPANY) (the “incorporating Bank”), changed its name following the merger with ZAO Banca Intesa (the “incorporated Bank”), 100% Russian banking subsidiary of Intesa Sanpaolo S.p.A. (Italy), on 11 January 2010.

The shareholders of the Bank as at 31 December are:

Shareholder	***2014 %***	***2013 %***
Intesa Sanpaolo S.p.A. (Italy)	46.9772	46.9772
Intesa Sanpaolo Holding International SA (Luxembourg)	53.0228	39.7670
European Bank for Reconstruction and Development (the “EBRD”) (United Kingdom)	-	13.2558
Total	**100.0000**	**100.0000**

The ultimate controlling party of the Bank is Intesa Sanpaolo S.p.A. (Italy) (“ISP”).

The Bank’s principal business activities are retail banking products and services, including a premium banking segment, and corporate banking products to small, medium and large businesses. The Bank is engaged in a program of the EBRD to support the businesses of small to medium sized companies by providing them with lending facilities.

The activities of the Bank are regulated by the Central Bank of Russian Federation (the “CBR”). The Bank operates under General Banking License № 2216.

In 2004, the Bank became a member of the state deposit insurance system in the Russian Federation.

The Bank has a wholly owned and controlled subsidiary, ZAO “Intesa Leasing”, former ZAO “KMB-Leasing”. It is primarily engaged in the provision of finance leases to the Bank’s clients and other companies.

The Bank’s head office is located in Moscow and it has 6 branches within the Russian Federation in the cities of Saint Petersburg, Nizhniy Novgorod, Ekaterinburg, Novosibirsk, Vladivostok and Rostov-on-Don (2013: 6 branches). As at 31 December 2014, the Bank has 61 office selling banking products in different cities within the Russian Federation (2013: 69 offices). 8 offices were closed during year ended 31 December 2014 in course of network optimisation.

The Bank’s registered office is located at the following address: 2, Petroverigsky pereulok, Moscow, Russian Federation, 101000.

As at 31 December 2014, the Bank employed 1 808 people (2013: 1 761).

Russian Business environment

The Bank’s operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Current economic and politic situation, including situation in Ukraine and introduction of sanctions against the Russian Federation by particular countries and introduction of responsive sanctions against particular countries by the Russian Federation creates risks for operations conducted by the Bank. Management of the Bank believes that it takes all the necessary efforts to support the economic stability of the Bank in the current environment.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

(Thousands of Russian Roubles)

2. Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with the Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for trading securities, available-for-sale securities and derivative financial instruments that are stated at fair value.

Functional and presentation currency

The functional currency of the Bank and its subsidiary is the Russian Rouble ("RUB") as, being the national currency of the Russian Federation it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

All financial information presented in RUB is rounded to the nearest thousand, except where indicated.

Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - Note 8;
- net investments in finance leases impairment estimates – Note 9;
- estimates of fair values of financial instruments – Note 26;
- tax contingency estimates – Note 21;
- repossessed collateral – Note 26.

3. Summary of accounting policies

The following accounting policies are consistently applied in the preparation of the consolidated financial statements except for changes in accounting policies which are described at the end of this Note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank.

The Bank measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(Thousands of Russian Roubles)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Bank elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Bank consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions and disposals of non-controlling interests

The Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding mandatory cash balances with the CBR, and accounts which can be converted into cash within one day and are free from contractual encumbrances. All short-term interbank placements are included in amounts due from other banks.

Mandatory cash balances with the CBR

Credit institutions are required to maintain a non-interest earning cash deposit (mandatory cash balances) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such a deposit is significantly restricted by the statutory legislation. Mandatory cash balances with the CBR are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

(Thousands of Russian Roubles)

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term;

- upon initial recognition designates as at fair value through profit or loss;

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank designates as available-for-sale or,

- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;

- held-to-maturity investments that are measured at amortised cost using the effective interest method;

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

'Day 1' profit

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of profit or loss and other comprehensive income. In cases where data used is not observable,

(Thousands of Russian Roubles)

the difference between the transaction price and model value is only recognised in the consolidated statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

(Thousands of Russian Roubles)

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within amounts due to credit institutions or amounts due to customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions within due from banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

Derivative financial instruments include swaps, forwards, spot transactions in interest rates, foreign exchanges and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to government, amounts due to credit institutions, amounts due to customers, other borrowed funds, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases

Finance - Bank as a lessor

The Bank recognises lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term.

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating – Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

(Thousands of Russian Roubles)

Property and equipment

Items of property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets using the following rates:

	per annum, %
Premises	3
Office and computer equipment	20
Intangible assets	20-33

The residual values of the assets, useful lives and methods are reviewed, and adjusted as appropriate, at each reporting period.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Equipment purchased for leasing purposes

The Bank accounts for capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and transferred to the lessee.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with a finite useful live are amortised over the useful economic live, not exceeding a period of 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation is charged to profit or loss on a straight-line basis.

Intangible assets with an indefinite useful life are not amortised. The useful life of such assets is reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for such assets.

The Bank tests intangible assets with an indefinite useful life for impairment by comparing their recoverable amounts with the corresponding carrying amounts annually, and whenever there is an indication that an intangible asset may be impaired.

Repossessed collateral

Repossessed collateral represents non-financial assets obtained by the Bank in the settlement of overdue loans. These assets are initially recognised at fair value when obtained and can be included in property and equipment, other financial assets, inventories or investment property within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these assets categories.

Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(Thousands of Russian Roubles)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(Thousands of Russian Roubles)

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the consolidated statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingencies and credit related commitments

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

In the normal course of business, the Bank enters into credit related commitments including undrawn loan commitments, guarantees and letters of credit. Guarantees are initially recognised in the consolidated statement of financial position at fair value net of associated transaction costs within other liabilities, and subsequently are measured at the higher of the amortised premium or the amount of provision for losses under the guarantee.

Provisions are recognised against credit related commitments when losses are considered probable and can be measured reliably.

Any increase in the liability relating to credit related commitments is recognised in profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements other than with the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Bank has no significant post-retirement benefits to its employees.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, other than on a business combination, are recognised as a deduction from equity, net of any tax effects.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Other capital reserve

Funds provided by the Bank's shareholders in the form of debt free financing are classified as other capital reserves.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

(Thousands of Russian Roubles)

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees directly related to the loan issuance and amounts paid or received between the parties to the contract that are an integral part of the effective interest rate, including incremental directly attributable loan origination costs, such as bonuses for loan issuance. Once the balance value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are amortised over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Segment reporting

An operating segment is a component of the Bank that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Substantially all of the Bank’s activities relate to provision of financial services mostly to corporate customers (small, medium and large business). Therefore, management concluded that the Bank has a single reportable segment.

Changes in accounting policies and presentation

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation) (see (i));
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets);
- IFRIC 21 Levies.

The nature and the effect of the changes are explained below.

(i) *Offsetting Financial Assets and Financial Liabilities*

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Bank does not expect that these amendments will have an impact on its financial statements as the Bank does not present financial assets and financial liabilities on net basis in the consolidated statement of financial position.

New standards not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 Financial Instruments is issued in phases and intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

(Thousands of Russian Roubles)

4. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	2014	*2013*
Cash on hand	1 063 006	774 766
Correspondent accounts with the CBR	2 181 862	1 335 203
Correspondent accounts and overnight placements with other credit institutions		
- OECD banks	3 008 936	1 999 330
- Largest 30 Russian banks	123 960	66 786
- Other Russian banks	54 262	38 108
Cash and cash equivalents	**6 432 026**	**4 214 193**

As at 31 December 2014, the Bank has two banks (2013: one bank), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2014 is RUB 4 161 178 thousand (2013: RUB 1 531 871 thousand).

Amounts of cash and cash equivalents include balances with related parties, which are disclosed in Note 27.

No cash and cash equivalents are impaired or past due.

5. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December comprise:

	2014	*2013*
Time deposits with credit institutions		
- OECD banks	1 125 168	3 966 597
- Largest 30 Russian banks	684 595	600 000
- Other Russian banks	100 000	328 070
- Other banks	342 309	135 425
Amounts due from credit institutions	**2 252 072**	**5 030 092**

As at 31 December 2014, the Bank has no banks (2013: one bank), whose balances individually exceed 10% of equity.

No amounts due from credit institutions are impaired or past due.

Amounts due from credit institutions include loans placed with related parties. The gross value of these balances as at 31 December 2014 is RUB 1 125 168 thousand (2013: RUB 3 966 597 thousand). They bear annual interest rate 0.20% for USD (2013: 0.08% for EUR and up to 5 % for RUB).

6. Available-for-sale securities

Available-for-sale securities comprise:

	2014	*2013*
Russian State bonds (“OFZ”)	1 994 063	1 937 261
Corporate shares	4 410	4 410
Pledged under sale and repurchase agreements		
Russian State bonds (“OFZ”)	-	791 265
Available-for-sale securities	**1 998 473**	**2 732 936**

As at 31 December 2014, Russian State bonds are Rouble denominated securities issued by the Ministry of Finance of the Russian Federation. Russian State bonds have maturity dates from 3 June 2015 to 3 August 2016 (2013: from 13 March 2014 to 15 July 2015), annual coupon rates from 6.0% to 7.0% (2013: from 6.9% to 11.2%) and annual yields to maturity from 9.8% to 14.6% (2013: from 5.6% to 6.2%), depending on the bond issue.

As at 31 December 2014, there are no corporate Rouble bonds in AFS portfolio.

No available-for-sale securities are impaired or past due.

As at 31 December 2014, the Bank has no transactions to sell securities under agreements to purchase.

As at 31 December 2014, available-for-sale securities totalling RUB 1 222 828 thousand are eligible for pledge within the limits of refinancing from the CBR (2013: RUB 1 798 994 thousand).

(Thousands of Russian Roubles)

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset, and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	2014			*2013*		
	Notional amount	*Fair values Asset*	*Fair values Liability*	*Notional amount*	*Fair values Asset*	*Fair values Liability*
Foreign exchange contracts						
Spot deals – foreign counterparties	2 002 435	2 435	-	224 850	-	(6)
Spot deals – domestic counterparties	2 440 498	28 001	(35 997)	491 366	427	-
Forwards – foreign counterparties	-	-	-	2 000 000	20 179	-
Forwards – domestic counterparties	122 412	-	(43 164)	-	-	-
Total derivative financial assets (liabilities)		**30 436**	**(79 161)**		**20 606**	**(6)**

As at 31 December 2014, foreign exchange contracts have remaining contractual maturity less than 3 months (2013: less than 3 months).

Amounts of derivative financial instruments include balances with related parties, which are disclosed in Note 27.

8. Loans to customers

Loans to customers as at 31 December comprise:

	2014	*2013*
Loans to corporate customers		
Large corporate loans	23 325 104	17 354 171
Small loans	15 626 395	15 771 202
Medium loans	11 259 408	10 168 060
Micro loans	7 223 848	8 410 939
Overdrafts	734 675	722 633
Total loans to corporate customers	**58 169 430**	**52 427 005**
Loans to retail customers		
Consumer loans	1 673 788	1 712 632
Mortgage loans	1 170 401	1 192 569
Credit cards	146 952	130 446
Total loans to retail customers	**2 991 141**	**3 035 647**
Gross loans to customers	**61 160 571**	**55 462 652**
Less: Loan impairment allowance	(4 271 059)	(4 324 617)
Net loans to customers	**56 889 512**	**51 138 035**

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2014	*2013*
Loan impairment allowance as at 1 January	**4 324 617**	**3 842 795**
Net charge	1 317 405	1 335 889
Effect of unwinding of discount	(241 771)	(221 563)
Amounts written off	(1 129 192)	(632 504)
Loan impairment allowance as at 31 December	**4 271 059**	**4 324 617**

As at 31 December 2014, the total amount of overdue outstanding payments on loans net-off accrued interest is RUB 4 929 409 thousand (2013: RUB 4 941 954 thousand).

The majority of loans to customers have monthly principal and interest repayments.

Amounts of loans to customers include balances with related parties, which are disclosed in Note 27.

(Thousands of Russian Roubles)

Concentration of loans to customers

Economic sector risk concentrations within loans to customers are as follows:

	2014		2013	
	Amount	**%**	**Amount**	**%**
Trading	30 708 228	50%	28 664 596	52%
Manufacturing	17 121 894	28%	13 290 018	24%
Services	8 926 153	15%	8 852 241	16%
Individuals	2 991 141	5%	3 035 647	5%
Other	1 413 155	2%	1 620 150	3%
Total loans to customers, gross	**61 160 571**	**100%**	**55 462 652**	**100%**

As at 31 December 2014, the Bank has twenty largest borrowers with an aggregate loan amount for each of them above RUB 250 850 thousand (2013: twenty largest borrowers above RUB 200 644 thousand). The total aggregate amount of these loans is RUB 12 123 994 thousand or 19.8% of the gross loan portfolio (2013: RUB 8 685 977 thousand or 15.7%), with the impairment allowance of RUB 493 910 thousand (2013: RUB 450 731 thousand).

9. Net investments in finance leases

Net investments in finance leases at 31 December 2014 comprise:

	Within 1 year	*From 1 to 5 years*	*Total*
Gross investments in finance leases	1 058 294	784 084	**1 842 378**
Unearned future finance income on finance leases	(82 427)	(207 044)	**(289 471)**
	975 867	**577 040**	**1 552 907**
Less: Impairment allowance	(136 886)	(107 607)	**(244 493)**
Net investments in finance leases	**838 981**	**469 433**	**1 308 414**

Net investments in finance leases at 31 December 2013 comprise:

	Within 1 year	*From 1 to 5 years*	*Total*
Gross investments in finance leases	1 031 999	801 933	**1 833 932**
Unearned future finance income on finance leases	(78 074)	(239 948)	**(318 022)**
	953 925	**561 985**	**1 515 910**
Less: Impairment allowance	(141 842)	(114 779)	**(256 621)**
Net investments in finance leases	**812 083**	**447 206**	**1 259 289**

Movements in the allowance for impairment of investments in finance leases for the year ended 31 December are as follows:

	2014	*2013*
Impairment allowance as at 1 January	**256 621**	**513 815**
Net charge (recovery)	848	(2 334)
Effect of unwinding of discount	(3 055)	(3 890)
Amounts written off	(9 921)	(250 970)
Impairment allowance as at 31 December	**244 493**	**256 621**

The leased assets are effectively pledged, as the rights to the leased asset revert to the lessor in the event of default. Lease payments are due on a monthly basis. The Bank holds title to the leased property during the lease term. Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

As at 31 December 2014, the Bank has twenty largest lessees with an aggregate amount for each of them above RUB 12 995 thousand (2013: twenty largest lessees above RUB 10 040 thousand). The total aggregate amount of net investments in finance leases before impairment allowance related to these leases is RUB 548 762 thousand or 35.3% of the total net investments in finance leases portfolio before impairment allowance (2013: RUB 573 482 thousand or 37.8%), with the impairment allowance of RUB 45 344 thousand (2013: RUB 71 830 thousand).

There is no unguaranteed residual value related to lease contracts outstanding as at 31 December 2014 and 2013.

(Thousands of Russian Roubles)

10. Property and equipment

The movements in property and equipment for the year ended 31 December are as follows:

	Premises	*Office and computer equipment*	*Total*
Cost as at 1 January 2013	443 504	1 060 722	1 504 226
Accumulated depreciation as at 1 January 2013	(112 724)	(896 738)	(1 009 462)
Carrying amount as at 1 January 2013	**330 780**	**163 984**	**494 764**
Additions	6 555	84 830	91 385
Disposals (net of accumulated depreciation)	–	(4 451)	(4 451)
Depreciation charge for the year	(14 806)	(112 923)	(127 729)
Cost as at 31 December 2013	450 059	1 077 693	1 527 752
Accumulated depreciation as at 31 December 2013	(127 530)	(946 253)	(1 073 783)
Carrying amount as at 31 December 2013	**322 529**	**131 440**	**453 969**
Additions	5 850	94 946	100 796
Disposals (net of accumulated depreciation)	(4 137)	(2 329)	(6 466)
Depreciation charge for the year	(14 920)	(68 934)	(83 854)
Cost as at 31 December 2014	451 423	991 345	1 442 768
Accumulated depreciation as at 31 December 2014	(142 101)	(836 222)	(978 323)
Carrying amount at 31 December 2014	**309 322**	**155 123**	**464 445**

Capital expenditure commitments related to property and equipment are disclosed in Note 21.

11. Intangible assets

The movements in intangible assets for the year ended 31 December are as follows:

	Computer software and licenses
Cost as at 1 January 2013	2 135 922
Accumulated amortisation as at 1 January 2013	(1 040 526)
Carrying amount as at 1 January 2013	**1 095 396**
Additions	181 123
Amortisation for the year	(417 287)
Cost as at 31 December 2013	2 317 045
Accumulated amortisation as at 31 December 2013	(1 457 813)
Carrying amount as at 31 December 2013	**859 232**
Additions	303 238
Amortisation for the year	(456 146)
Cost as at 31 December 2014	2 620 283
Accumulated amortisation as at 31 December 2014	(1 913 959)
Carrying amount as at 31 December 2014	**706 324**

As at 31 December 2014 and 2013, computer software “T 24” totalling RUB 833 434 thousand is included in intangible assets. Amortisation of this software started in August 2010 and amounts to RUB 736 200 thousand as at 31 December 2014 (2013: RUB 569 514 thousand).

Capital expenditure commitments related to intangible assets are disclosed in Note 21.

(Thousands of Russian Roubles)

12. Taxation

The corporate income tax expense for the year ended 31 December comprises:

	2014	*2013*
Current tax	29 830	71 854
Deferred tax – origination and reversal of temporary differences	(26 146)	(22 143)
Total income tax expense	**3 684**	**49 711**

The Bank is liable for current income tax in Russia on its taxable profit and capital gains other than profits on certain types of securities at a rate of 20% (2013: 20%). Pursuant to Russian income tax law interest income on certain types of securities is subject to income tax at a rate of 15%, 9% or nil. As at 31 December 2014, the rate of tax applicable for deferred taxes is 20% (2013: 20%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual for the year ended 31 December is as follows:

	2014	*2013*
Profit before income tax expense	**18 348**	**229 208**
Income tax expense at the applicable tax rate	3 670	45 842
Income on government securities taxed at different rates	(9 944)	(9 852)
Non-deductible expenses	9 958	7 496
Under provided in prior year	-	6 225
Total income tax expense	**3 684**	**49 711**
Effective tax rate	**20.1%**	**21.7%**

Temporary differences between the carrying amounts of assets for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2014 and 2013.

The deductible temporary differences do not expire under the current tax legislation.

As at 31 December 2014, the Bank has the tax loss carry-forwards of RUB 130 387 thousand (2013: RUB 87 924 thousand) which can be utilised against future taxable income till 2024.

The Bank and ZAO “Intesa Leasing” calculate net deferred tax assets and liabilities separately and cannot offset them.

As at 31 December 2014, ZAO “Intesa Leasing” has tax loss carry-forwards RUB 13 100 thousand (2013: nil).

Movement in temporary differences during the year ended 31 December 2014 are as follows:

	1 January 2014	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*31 December 2014*
Tax effect of temporary differences				
Available-for-sale securities	2 970	(5 086)	15 041	12 925
Derivative financial instruments	(4 121)	13 866	-	9 745
Loans to customers	(298 644)	(68 343)	-	(366 987)
Net investments in finance leases	87 398	(3 209)	-	84 189
Property, equipment and intangible assets	33 613	27 140	-	60 753
Other assets	44 855	(22 261)	-	22 594
Other liabilities	111 514	28 476	-	139 990
Tax loss carry-forwards	87 924	55 563	-	143 487
Net deferred tax assets	**65 509**	**26 146**	**15 041**	**106 696**

(Thousands of Russian Roubles)

Movement in temporary differences during the year ended 31 December 2013 are as follows:

	1 January 2013	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*31 December 2013*
Tax effect of temporary differences				
Available-for-sale securities	8 202	(4 752)	(480)	2 970
Derivative financial instruments	(17 756)	13 635	-	(4 121)
Loans to customers	(125 219)	(173 425)	-	(298 644)
Net investments in finance leases	57 979	29 419	-	87 398
Property, equipment and intangible assets	(31 696)	65 309	-	33 613
Other assets	39 180	5 675	-	44 855
Other liabilities	113 156	(1 642)	-	111 514
Tax loss carry-forwards	-	87 924	-	87 924
Net deferred tax assets	**43 846**	**22 143**	**(480)**	**65 509**

13. Other impairment and provisions

Movements in the other impairment allowances and provisions for the year ended 31 December are as follows:

	Other assets	*Credit related commitments*	*Provisions for other claims*	*Total*
1 January 2013	**67 470**	**35 778**	**48 620**	**151 868**
Net charge (recovery)	98 568	(1 445)	(22 020)	75 103
Amounts written off	(101 638)	-	-	(101 638)
31 December 2013	**64 400**	**34 333**	**26 600**	**125 333**
Net charge (recovery)	166 257	12 123	(19 068)	159 312
Amounts written off	(62 453)	-	-	(62 453)
31 December 2014	**168 204**	**46 456**	**7 532**	**222 192**

Impairment allowances for assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in other liabilities.

14. Other assets and liabilities

Other assets as at 31 December comprise:

	2014	*2013*
Settlements on currency conversion operations	731 359	163 646
Prepayments	310 863	281 454
Repossessed collateral	244 549	200 326
Settlements with suppliers and customers	202 302	112 569
Leasehold improvements	86 598	99 576
Other	35 781	21 938
	1 611 452	**879 509**
Less: Impairment allowance	(168 204)	(64 400)
Other assets	**1 443 248**	**815 109**

Other liabilities as at 31 December comprise:

	2014	*2013*
Settlements with suppliers and customers	124 736	59 494
Settlements with employees	123 205	110 089
Trade creditors	77 824	100 105
Provision for losses on credit related commitments	46 456	34 333
Provision for other claims	7 532	26 600
Other	39 695	27 076
Other liabilities	**419 448**	**357 697**

(Thousands of Russian Roubles)

15. Amounts due to credit institutions

Amounts due to credit institutions as at 31 December comprise:

	2014	*2013*
Time deposits and loans	20 744 364	16 185 644
Correspondent accounts	239 876	37 605
Amounts due to credit institutions	**20 984 240**	**16 223 249**

As at 31 December 2014, the Bank has three banks (2013: three banks), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2014 is RUB 20 749 018 thousand (2013: RUB 15 874 307 thousand).

Amounts due to credit institutions include loans from related parties. The gross value of these balances as at 31 December 2014 is RUB 13 718 369 thousand (2013: RUB 12 055 698 thousand). They bear fixed annual interest rates varying from 7.98% to 9.20% for RUB (2013: from 7.98% to 10.63%) . Floating interest rates are based on 3-month MOSPRIME plus 1.25% for RUB and 3-month LIBOR plus 2.2% for USD (2013: 1-month MOSPRIME plus 3.95% for RUB,3-month LIBOR plus 2.2% for USD).

At 31 December 2014, the Bank attracted funds from credit institutions to issue loans to customers in the amount of RUB 4 492 513 thousand. Such loans for the total amount of RUB 4 185 870 thousand are regarded as encumbered.

16. Amounts due to customers

The amounts due to customers as at 31 December include the following:

	2014	*2013*
Legal entities	**14 355 573**	**13 468 087**
- current accounts	11 803 448	11 624 234
- term deposits	2 552 125	1 843 853
Individuals	**4 303 561**	**5 019 916**
- current accounts	1 423 963	1 512 167
- term deposits	2 879 598	3 507 749
State and non-profit organisations	**58 174**	**234 953**
- current accounts	44 841	52 953
- term deposits	13 333	182 000
Amounts due to customers	**18 717 308**	**18 722 956**

State and non-profit organisations exclude government-owned profit oriented organisations.

As at 31 December 2014, the Bank has one customer (2013: one customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is RUB 1 922 034 thousand (2013: RUB 1 546 435 thousand).

As at 31 December 2014, included in term deposits are deposits of individuals of RUB 2 879 598 thousand (2013: RUB 3 507 749 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

17. Debt securities issued

In April 2012, the Bank completed the issue of non-convertible documentary bonds totalling RUB 5 000 000 thousand, maturing in April 2015 with a current annual coupon rate of 9% and payable semi-annually.

In October 2012, the Bank completed the issue of non-convertible documentary bonds totalling RUB 3 000 000 thousand, maturing in October 2015 with a current annual coupon rate of 9.75% and payable semi-annually.

In April 2014, the Bank early repaid part of the RUB 3 000 000 thousand bond issue in the nominal amount of RUB 2 139 375 thousand.

18. Other borrowed funds

Other borrowed funds are represented by long-term loans from Intesa Sanpaolo Holding International SA with the aim to finance the lending operations of the Bank.

(Thousands of Russian Roubles)

As at 31 December 2014, these long-term loans mature in 2015 (2013: mature in 2014 – 2015). Loans bear fixed annual interest rates varying from 8.5% to 10.7% for RUB and from 3.5% to 3.7% for USD, or floating annual interest rates based on 6-month LIBOR plus 1.98% for USD.

19. Subordinated debt

As at 31 December 2014, subordinated debt is represented by the loan from Intesa Sanpaolo Holding International SA. This subordinated loan is denominated in US dollars and mature in December 2015 (2013: loans from Intesa Sanpaolo SPA and Intesa Sanpaolo Holding International SA, denominated in US dollars and mature between January 2014 and December 2015). As at 31 December 2014, the annual interest rate on this subordinated loan is based on 3-month LIBOR plus 3.5% (2013: from 3-month LIBOR plus 2.4%-3.5% and 6-month LIBOR plus 2.4%).

The claims of the Bank's creditors on subordinated debt shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

20. Equity

There were no movements in share capital for the years ended 31 December 2014 and 2013.

As at 31 December 2014 and 2013, the share capital of BANCA INTESA (CLOSED JOINT-STOCK COMPANY) is represented by 876 128 ordinary shares with a nominal value of RUB 12 350 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Other capital reserve

As at 31 December 2014 and 2013, other capital reserve of RUB 1 803 914 thousand is represented by funds provided in June 2009 to the Bank by its shareholder Intesa Sanpaolo Holding International SA in the form of debt free financing. These funds are not repayable to the Bank's shareholder.

Revaluation reserve for available-for-sale securities

Revaluation reserve for available-for-sale securities records fair value changes on available-for-sale securities.

Retained earnings

In accordance with RAL, the Bank distributes profit as dividends or transfers it to retained earnings on the basis of accounting reports prepared in accordance with RAL. The Bank's retained earnings under RAL as at 31 December 2014 are RUB 984 065 thousand (2013: RUB 1 091 494 thousand).

During 2014, the Bank declared and paid dividends in respect of the year ended 31 December 2013 in the amount of RUB 261.080 per one share totalling RUB 228 739 thousand (2013: RUB 884 110 thousand).

21. Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

(Thousands of Russian Roubles)

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

Commitments

As at 31 December the Bank's commitments and contingencies comprise the following:

	2014	***2013***
Credit related commitments		
Guarantees issued	8 656 259	7 414 412
Undrawn overdraft loan commitments	1 384 453	1 068 712
Undrawn credit line commitments	415 856	787 088
Letters of credit	346 176	135 475
Commitments to issue loans	21 900	61 370
	10 824 644	**9 467 057**
Operating lease commitments		
Not later than 1 year	512 866	527 098
Later than 1 year but not later than 5 years	1 129 399	1 168 219
Later than 5 years	75 131	33 523
	1 717 396	**1 728 840**
Capital expenditure commitments – property and equipment	2 699	4 026
Capital expenditure commitments – intangible assets	90 662	74 070
	93 361	**78 096**
Less: Impairment allowance	(46 456)	(34 333)
Commitments and contingencies	**12 588 945**	**11 239 660**

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Insurance

The Bank's premises and other property are insured for the total amount of RUB 5 886 766 thousand as at 31 December 2014 (2013: RUB 6 492 070 thousand).

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. This type of liability insurance is generally not available in Russia at present.

22. Net fee and commission income

Net fee and commission income for the year ended 31 December comprises:

	2014	***2013***
Fee and commission income		
Settlement transactions	372 832	336 149
Cash collection transactions	176 437	186 702
Accounts remote administration	109 594	108 685
Guarantees issued and letters of credit	78 053	99 530
Lending transactions	69 138	82 659
Other	60 295	52 105
Fee and commission income	**866 349**	**865 830**

(Thousands of Russian Roubles)

	2014	*2013*
Fee and commission expense		
Settlement transactions	78 705	81 693
Guarantees received	23 541	28 555
Cash collection transactions	16 341	22 428
Stock exchange services	4 997	9 914
Other	453	512
Fee and commission expense	**124 037**	**143 102**
Net fee and commission income	**742 312**	**722 728**

Included in commission on lending transactions are fees and commissions charged during the life of the loan, for example, commission for amendments to the original terms and conditions of the loan agreement; commission for loan repayment prior to maturity and commission for information letters to the borrower.

23. Net losses from other operating activities

	2014	*2013*
Depreciation of capital expenditures	(23 452)	(80 744)
Obligatory deposit insurance system contributions	(20 603)	(19 574)
Notarial and state duties expenses	(20 139)	(7 927)
Net loss on disposal of property and equipment	(5 653)	(9 225)
Operations of prior years	(5 298)	(2 598)
Professional services	(1 352)	(398)
Net gain on disposal of leased assets	2 811	5 656
Net other operating income	(3 432)	6 610
Net losses from other operating activities	**(77 118)**	**(108 200)**

24. Personnel and other general administrative expenses

Personnel expenses and other general administrative expenses for the year ended 31 December comprise:

	2014	*2013*
Salaries and bonuses	1 472 947	1 426 661
Social security costs	321 832	309 458
Personnel expenses	**1 794 779**	**1 736 119**
Operating lease	577 132	619 890
Data processing	252 127	240 233
Legal and consultancy expenses	249 540	229 295
Marketing and advertising	114 904	119 557
Office materials	93 164	89 939
Communications	79 874	79 908
Security	54 597	56 517
Operating taxes	23 552	31 163
Charity	21 528	17 669
Repair and maintenance of property and equipment	21 499	19 748
Business travel and related expenses	18 267	20 876
Insurance	14 171	14 378
Personnel training	2 041	3 849
Other	32 246	43 897
Other general administrative expenses	**1 554 642**	**1 586 919**

25. Corporate Governance and Risk Management

Corporate governance framework

The Bank is established as a closed joint stock company in accordance with the Russian law. The supreme governing body of the Bank is the general shareholders meeting that convense for annual or extraordinary meetings. The general shareholders meeting makes strategic decisions on the Bank’s operations.

The general shareholders meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

Russian legislation and the Charter of the Bank establish the lists of decisions that are exclusively approved by the general shareholders meeting and that are approved by the Board of Directors.

(Thousands of Russian Roubles)

As at 31 December 2014, the Board of Directors includes:

- Professor Antonio Fallico – Chairman of the Board of Directors;
- Mr. Armando Selva;
- Mr. Norberto Achille;
- Mr. Walter Ambrogi;
- Mr. Salvatore Catalano;
- Mr. Rosario Strano;
- Mr. Luca Leoncini Bartoli;
- Mr. Christophe Velle.

During the year ended 31 December 2014 two members left the Board (Mr. Thomas Grasse and Mr. Paolo Sarcinelli), three new joined it (Mr. Rosario Strano, Mr. Luca Leoncini Bartoli and Mr. Christophe Velle). No other changes occurred in the composition of the Board of Directors.

General activities of the Bank are managed by the sole executive body of the Bank - the Chairman of the Management Board and the collective executive body – the Management Board of the Bank. The Board of Directors meeting elects the Chairman of the Management Board. The executive bodies of the Bank are responsible for implementation of decisions of the general meeting of shareholders and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors of the Bank and to the general meeting of shareholders.

As at 31 December 2014, the Management Board includes:

- Olga Lein – Acting Chairman of the Management Board;
- Tatyana Pavlycheva;
- Mikhail Nazarov;
- Irina Vasina;
- Pierre-Luigi Vidorno.

During 2014 one new member, Mr. Pierre-Luigi Vidorno, joined Management Board. No other changes occured in its' composition.

Internal control policies and procedures

The Board of Directors and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- effectiveness and efficiency of operations, effectiveness of asset and liability management;
- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations, including anti-money laundering and anti-corruption.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management constantly monitors effectiveness of internal controls and introduces additional controls or changes to existing controls if necessary.

The Bank developed a system of standards, policies and procedures to ensure proper operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;

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- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for the authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank has a system of automated controls to monitor risks.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulations of the Central Bank of Russia dated 16 December 2003 No 242-P On the Organisation of Internal Control in Credit Organisations and Banking Groups sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks);
- audit of reliability of internal control system over automated information systems;
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the credit organisation's property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of internal control service and risk management service.

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Bank.

The main functions of internal control service include the following:

- identification of compliance risks and regulatory risks;
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its’ consequences;
- monitoring of regulatory risk;
- preparation of recommendations on regulatory risk management;
- coordination and participation of design of measures to decrease regulatory risk;
- monitoring of efficiency of regulatory risk management;
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest;
- analysis of dynamics of clients’ complaints;
- analysis of economic reasonableness of agreements with suppliers;
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with ISP Group standards is supported by periodic reviews undertaken by the Internal Audit Division (further, “the Internal Audit function”). The Internal Audit function is independent from business operations and is subordinated to and reports to the Board of Directors. The results of the Internal Audit function reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and senior management of the Bank and the ISP Group.

The internal control system in the Bank comprises of:

- the general meeting of shareholders;
- the Board of Directors and its committees, including the Audit Committee;

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- the Management Board and the Chairman of the Management Board;
- the Revision Commission;
- the Chief Accountant;
- the Risk management function;
- the Security function, including IT-security;
- the Human resource function;
- the Internal Audit function;
- the Internal Control service and other employees, divisions and functions that are responsible for compliance with the established standards, policies and procedures , including:
  - heads of branches and heads of business-units;
  - business processes managers;
  - division responsible for compliance with anti-money laundering requirements;
  - professional securities market participant controller – an executive office responsible for compliance with the requirements for securities market participants;
  - the legal officer – an employee and a division responsible for compliance with the legal and regulatory requirements;
  - other employees/divisions with control responsibilities.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity*,* Direction of the CBR dated 1 April 2014 No 3223-U On Requirements to the Head of the Risk Management Service, the Head of the Internal Control Service, the Head of the Internal Audit Service of the Credit Organisation, establishes the professional qualification, business reputation and other requirements for the members of the Board of Directors, the Management Board, the Head of the Internal Audit function, the Internal Control service and the Risk management function and other key management personnel. All members of the Bank's governing and management bodies of the Bank comply with these requirements.

Management believes that the Bank complies with the CBR requirements in respect of risk management and internal control systems, including requirements covering the Internal Audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is essential to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. Operational, business and other non-financial risks are also inherent in the Bank's activities.

Risk management is the process of identification, measurement and monitoring of risks faced by the Bank, conducted in accordance with its particular organisational and functional structure and established for the appropriate management of the risk appetite expressed by the shareholders.

The independent risk control process does not cover business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Bank has the Risk management function to preserve and enhance value for the shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas.

The Risk management function is based on the following general principles:

- independence from the business lines;
- entity wide approach;
- coherence at all aggregation levels through the use of consistent measuring models;
- timing in providing the data to support the decision-making and control processes;
- transparency in assessment methodologies and criteria used for a better understanding of applied risk measures;
- segregation of duties between the Board of Directors, CEO, divisions and departments.

(Thousands of Russian Roubles)

Risk management function is not subordinated to and does not report to divisions accepting relevant risks.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 31 December 2014 and 2013, the mandatory ratios of the Bank were in compliance with limits set by the CBR.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios.

The Bank does not calculate mandatory ratios for the banking group and does not present the consolidated financial statement prepared in accordance with the Russian financial reporting legislation as considers that the subsidiary is below the materiality threshold for consolidation.

These are considered fundamental principles of governance rules with reference to the characteristics of internal management and control systems.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management process and for approving risk strategies,principles methodologies for identifying and managing significant risks, including setting the overall risk framework for limits and monitoring capital adequacy and stress-testing.

Executive Committee

The Executive Committee sets general limits on credit risk exposures of the Bank for a single borrower and affiliated entities/related parties, exceeding the Credit Committee's limits, taking into consideration ISP Group risk framework.

Management Board

The Management Board has the responsibility to define and monitor the overall risk management process within the Bank, including monitoring of risk limits and capital adequacy as established by the Bank's internal documentation. The Management Board also approved the methodologies for identifying and managing significant risks.

Financial Risks Committee

The Financial Risk Committee is responsible for the protection and allocation of the Bank's equity and assets and liabilities taking into consideration pricing structure and maturity profile as well as the legislation, relevant internal regulations and ISP Group guidelines. It regularly monitors and evaluates the structure of assets and liabilities, compares expected yields with the actual, evaluates general market conditions and assesses the Bank versus its competitors. It ensures that individual transactions comply with policies, established risk limits and other requirements set out for each of the business lines in line with the ISP Group policy.

Credit Committee and Asset Quality Session

The Credit Committee is the superior credit approval authority in the Bank. It takes credit decisions on proposals made by the Risk management function and considers their terms of issuance. For credit exposures above certain limit the final approval has to be provided by the Executive Committee taking into consideration an opinion provided by the Credit Department of ISP Group.

The Asset Quality Session ("AQS") assesses the quality of the credit portfolio and its trends, approves assets' classification, level of impairment allowance, performs an analysis of settlement strategies for impaired loans, and monitors collection process and its results.

Risk management function

The Risk management function is responsible for implementing and maintaining risk management procedures to ensure an independent control process, including preparation of reports on credit, operational, market, interest rate, legal, liquidity and reputational risk management, which include observations made as to its assessment of the effectiveness of Bank's procedures and methodologies, and recommendations for improvement. The frequency and consistency of these reports is in compliance with the Bank's internal documentation.

Treasury Division

The Treasury Division is responsible for managing the Bank's assets and liabilities and their structure. It is also primarily responsible for funding and liquidity risk management.

(Thousands of Russian Roubles)

Internal Audit function

Risk management processes are audited annually by the Internal Audit function. It reviews risk management policies and procedures and reports its findings, including the assessment of the effectiveness of the Bank's procedures and methodologies and recommendations for improvement, to the Audit Committee. The frequency and consistency of the reports is in compliance with the internal documentation.The Management Board and the Board of Directors periodically discuss reports prepared by the internal audit function and consider proposed corrective actions.

Risk measurement and reporting systems

Risk monitoring and controlling are primarily performed based on the established limits. These limits reflect the business strategy and market environment as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank maintains the system for reporting and monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types such as credit, operational, market, interest rate, legal, liquidity and reputational risks and activities and on the Bank's capital.

Information compiled from all business units is examined and processed in order to analyse, control and identify risks. This information is reported to the Board of Directors, the Management Board, Financial Risks Committee and Credit Committee. The report is prepared quarterly and includes aggregate credit exposures, credit metric forecasts, hold limit exceptions, market risk exposures, liquidity ratios and risk profile changes. The Management Board analyses risk reports and where necessary reallocates risk limits to achieve target strategic risk profile. The reports of the Risk management function are periodically discussed by the Board of Directors and the Management Board and proposed corrective actions are considered. The Risk management function also is involved in process of Homogeneous Credit Risk Monitoring leading by International Subsidiaries Banks Division.

Risk mitigation

As part of its overall risk management process, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecasted transactions.

The Bank actively uses collateral to reduce its credit risks.

Risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes of the same economic factors. Concentrations indicate the relative sensitivity of the Bank's performance to changes affecting a particular segment or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified portfolios. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk of a financial loss to the Bank if a counterparty of a financial instrument fails to meet its contractual obligations.

The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised credit related commitments), including guidelines to limit portfolio concentration and the establishment of the Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. The reports are based on a structured analysis focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk management function and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk management function. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

(Thousands of Russian Roubles)

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the customer, or otherwise obtained by the Bank. Retail loan applications are reviewed by the Retail Lending Department through the use of internal specialized software and application data verification procedures developed together with the Risk Management function.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management function with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised credit related commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital) (see Note 28). As at 31 December 2014 and 2013, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank as at 31 December 2014 was 21.2% (31 December 2013: 19.2%) and was in compliance with limits set by the CBR.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit related commitments

The Bank provides financial guarantees and letters of credit to its customers which may require the Bank to make payments on their behalf. Such payments are further collected from customers based on the terms of financial guarantees and letters of credit. They expose the Bank to credit risk and are mitigated by the same credit risk management policies and procedures.

The credit quality of loans to customers and net investments in financial leases is managed using internal classification. The following table shows the information on the credit quality of loans to customers and net investments in financial leases based on this classification as at 31 December.

	2014				*2013*			
	Gross loans	*Impairment allowance*	*Net loans*	*Impairment allowance to gross loans, %*	*Gross loans*	*Impairment allowance*	*Net loans*	*Impairment allowance to gross loans, %*
Loans to corporate customers								
Neither past due nor impaired	**51 087 034**	**(308 131)**	**50 778 903**	**0.6**	**45 922 200**	**(411 400)**	**45 510 800**	**0.9**
Past due but not impaired:	**916 811**	**(131 347)**	**785 464**	**14.3**	**603 302**	**(105 241)**	**498 061**	**17.4**
- past due less than 90 days	916 811	(131 347)	785 464	14.3	588 347	(98 787)	489 560	16.8
- past due more than 90 days but less than 1 year	-	-	-		14 955	(6 454)	8 501	43.2
Impaired loans:	**6 165 585**	**(3 491 696)**	**2 673 889**	**56.6**	**5 901 503**	**(3 470 415)**	**2 431 088**	**58.8**
- past due less than 90 days	1 463 589	(312 929)	1 150 660	21.4	1 541 767	(479 595)	1 062 172	31.1
- past due more than 90 days but less than 1 year	824 487	(471 279)	353 208	57.2	846 625	(470 542)	376 083	55.6
- past due more than 1 year	3 877 509	(2 707 488)	1 170 021	69.8	3 513 111	(2 520 278)	992 833	71.7
Total loans to corporate customers	**58 169 430**	**(3 931 174)**	**54 238 256**	**6.8**	**52 427 005**	**(3 987 056)**	**48 439 949**	**7.6**
Loans to retail customers								
Neither past due nor impaired	**2 521 418**	**(27 432)**	**2 493 986**	**1.1**	**2 587 541**	**(25 561)**	**2 561 980**	**1.0**
Past due but not impaired:	**95 182**	**(22 271)**	**72 911**	**23.4**	**91 441**	**(20 259)**	**71 182**	**22.2**
- past due less than 90 days	95 182	(22 271)	72 911	23.4	90 853	(19 933)	70 920	21.9
- past due more than 90 days but less than 1 year	-	-	-		588	(326)	262	55.4
Impaired loans:	**374 541**	**(290 182)**	**84 359**	**77.5**	**356 665**	**(291 741)**	**64 924**	**81.8**
- past due less than 90 days	40 508	(23 735)	16 773	58.6	1 435	(1 411)	24	98.3
- past due more than 90 days but less than 1 year	130 821	(96 772)	34 049	74.0	100 196	(82 479)	17 717	82.3
- past due more than 1 year	203 212	(169 675)	33 537	83.5	255 034	(207 851)	47 183	81.5
Total loans to retail customers	**2 991 141**	**(339 885)**	**2 651 256**	**11.4**	**3 035 647**	**(337 561)**	**2 698 086**	**11.1**
Total loans to customers	**61 160 571**	**(4 271 059)**	**56 889 512**	**7.0**	**55 462 652**	**(4 324 617)**	**51 138 035**	**7.8**

(Thousands of Russian Roubles)

	2014				2013			
	Gross loans	*Impairment allowance*	*Net loans*	*Impairment allowance to gross loans, %*	*Gross loans*	*Impairment allowance*	*Net loans*	*Impairment allowance to gross loans, %*
Net investments in finance leases								
Neither past due nor impaired	**1 264 287**	**(8 269)**	**1 256 018**	**0.7**	**1 227 529**	**(17 259)**	**1 210 270**	**1.4**
Past due but not impaired:	**48 479**	**(6 559)**	**41 920**	**13.5**	**34 453**	**(8 756)**	**25 697**	**25.4**
- past due less than 90 days	48 479	(6 559)	41 920	13.5	32 101	(7 467)	24 634	23.3
- past due more than 90 days but less than 1 year	-	-	-		2 352	(1 289)	1 063	54.8
Impaired:	**240 141**	**(229 665)**	**10 476**	**95.6**	**253 928**	**(230 606)**	**23 322**	**90.8**
- past due less than 90 days	2 770	(2 741)	29	99.0	3 380	(3 380)	-	100.0
- past due more than 90 days but less than 1 year	10 409	(10 290)	119	98.9	12 816	(12 730)	86	99.3
- past due more than 1 year	226 962	(216 634)	10 328	95.4	237 732	(214 496)	23 236	90.2
Total net investments in finance leases	**1 552 907**	**(244 493)**	**1 308 414**	**15.7**	**1 515 910**	**(256 621)**	**1 259 289**	**16.9**

Key assumptions and judgments for estimating the loan impairment

The Bank estimates loan impairment for impaired loans to corporate customers, net investments in finance leases and retail customers based on an analysis of the future cash flows. In determining the impairment allowance management assumes a delay in obtaining proceeds from the foreclosure of collateral and discounts the estimated fair value of collateral based on the type of asset.

The Bank estimates loan impairment for loans to corporate customers, net investments in finance leases and retail customers for which no evidence of impairment has been identified based on its internal model (acceptable proxy of ISP requirements) which takes into account historical loss experience for each type of loan.

To determine the amount of the impairment allowance for loans assessed collectively management makes the assumption that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to corporate customers, net investments in finance leases and retail customers as at 31 December 2014 would be RUB 1 627 148 thousand, RUB 39 252 thousand, RUB 79 538 thousand, respectively lower/higher (2013: RUB 1 453 199 thousand, RUB 37 779 thousand and RUB 80 943 thousand).

In determining the impairment allowance for guarantees issued and letters of credit management uses the same loss migration rates as for loans to customers.

Analysis of collateral and other credit enhancements

The Bank accepts 1st class guarantees, real estate property, cars and equipment as collateral for loans to customers.

Depending on the type of loans the Bank requires the following types of collateral:

- corporate lending: real estate, inventories, trade receivables, machinery and equipment, guarantees and sureties, securities;
- retail lending: real estate.

The Bank has procedures for monitoring the fair value of collateral, which include requesting for additional collateral in case the current value of collateral declines.

During the year ended 31 December 2014, the Bank obtained certain assets by taking possession of collateral for loans to customers and net investments in finance leases. As at 31 December 2014, the carrying amount of such assets is RUB 244 549 thousand (2013: RUB 200 326 thousand), which consisted of real estate of RUB 243 660 thousand (2013: RUB 164 952 thousand) and other assets of RUB 889 thousand (2013: RUB 35 374 thousand). The Bank's policy is to dispose of these assets as soon as it is practicable.

(Thousands of Russian Roubles)

The following tables provide information on collateral and other credit enhancements securing loans to customers, net of impairment, by types of collateral or other credit enhancement as at 31 December.

2014

	Real estate	***Motor vehicles***	***Equipment***	***Guarantees***	***Total collateralised loans***	***Total not collateralised loans***	***Total loans to customers***
Loans to corporate customers							
Neither past due nor impaired	18 634 812	4 741 674	1 815 520	1 011 609	**26 203 615**	**24 575 289**	**50 778 903**
Past due but not impaired	341 380	108 795	35 748	-	**485 923**	**299 540**	**785 464**
Impaired loans	2 128 933	177 846	143 697	-	**2 450 476**	**223 413**	**2 673 889**
Total loans to corporate customers	**21 105 125**	**5 028 315**	**1 994 965**	**1 011 609**	**29 140 014**	**25 098 242**	**54 238 256**
Loans to retail customers							
Neither past due nor impaired	939 691	-	-	-	**939 691**	**1 554 295**	**2 493 986**
Past due but not impaired	31 356	-	-	-	**31 356**	**41 555**	**72 911**
Impaired loans	84 243	-	-	-	**84 243**	**116**	**84 359**
Total loans to retail customers	**1 055 290**	**-**	**-**	**-**	**1 055 290**	**1 595 966**	**2 651 256**
Total loans to customers	**22 160 415**	**5 028 315**	**1 994 965**	**1 011 609**	**30 195 304**	**26 694 208**	**56 889 512**
Net investments in finance lease							
Neither past due nor impaired	26 451	647 266	578 814	-	**1 252 531**	**3 487**	**1 256 018**
Past due but not impaired	-	21 830	17 554	-	**39 384**	**2 536**	**41 920**
Impaired loans	-	79	69	-	**148**	**10 328**	**10 476**
Total net investments in finance leases	**26 451**	**669 175**	**596 437**	**-**	**1 292 063**	**16 351**	**1 308 414**

(Thousands of Russian Roubles)

	2013						
	Real estate	*Motor vehicles*	*Equipment*	*Guarantees*	*Total collateralised loans*	*Total not collateralised loans*	*Total loans to customers*
Loans to corporate customers							
Neither past due nor impaired	18 543 631	5 331 368	1 822 010	370 250	**26 067 259**	**19 443 541**	**45 510 800**
Past due but not impaired	214 724	97 880	58 457	-	**371 061**	**127 000**	**498 061**
Impaired loans	1 825 146	154 009	147 758	**-**	**2 126 913**	**304 175**	**2 431 088**
Total loans to corporate customers	**20 583 501**	**5 583 257**	**2 028 225**	**370 250**	**28 565 233**	**19 874 716**	**48 439 949**
Loans to retail customers							
Neither past due nor impaired	1 049 432	-	-	-	**1 049 432**	**1 512 548**	**2 561 980**
Past due but not impaired	23 222	-	-	-	**23 222**	**47 960**	**71 182**
Impaired loans	63 697	-	-	-	**63 697**	**1 227**	**64 924**
Total loans to retail customers	**1 136 351**	**-**	**-**	**-**	**1 136 351**	**1 561 735**	**2 698 086**
Total loans to customers	**21 719 852**	**5 583 257**	**2 028 225**	**370 250**	**29 701 584**	**21 436 451**	**51 138 035**
Net investments in finance lease							
Neither past due nor impaired	29 529	762 669	418 072	-	**1 210 270**	**-**	**1 210 270**
Past due but not impaired	-	17 001	8 183	-	**25 184**	**513**	**25 697**
Impaired loans	-	86	-	-	**86**	**23 236**	**23 322**
Total net investments in finance leases	**29 529**	**779 756**	**426 255**	**-**	**1 235 540**	**23 749**	**1 259 289**

(Thousands of Russian Roubles)

The tables above are presented on the basis of fair value of collateral as described below excluding over collateralisation.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are not impaired or past due is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral performed at the loan inception date as at each reporting date.

For impaired, past due and other certain loans the fair value of collateral is updated with frequency defined in Collateral Policy.

Mortgage loans to individuals are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

The Bank's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Bank provides collateral in the form of cash and marketable securities in respect of sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

(Thousands of Russian Roubles)

As at 31 December 2014, the Bank has no financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements.

As at 31 December 2013, financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements were the follow:

				Related amounts not offset in the consolidated statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Sale and repurchase, securities lendings and similar agreements	(728 298)	-	(728 298)	728 298	-	-
Total financial liabilities	**(728 298)**	**-**	**(728 298)**	**728 298**	**-**	**-**

The gross amounts of liabilities resulting from sale and repurchase agreements as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position at amortised cost.

The net amounts presented in the consolidated statement of financial position disclosed above form a part of available-for-sale securities and amounts due to the Central Bank of the Russian Federation respectively.

(Thousands of Russian Roubles)

Geographical concentration

The geographical concentration of assets and liabilities as at 31 December 2014 is as follows:

	Russia	*OECD*	*CIS and other countries*	*Total*
Assets				
Cash and cash equivalents	3 423 090	3 008 936	-	6 432 026
Mandatory cash balances with the Central Bank of the Russian Federation	285 274	-	-	285 274
Amounts due from credit institutions	784 595	1 125 168	342 309	2 252 072
Available-for-sale securities:				
- held by the Bank	1 998 473	-	-	1 998 473
- pledged under sale and repurchase agreements				
Derivative financial assets	28 001	2 435	-	30 436
Loans to customers	56 723 647	7 608	158 257	56 889 512
Net investments in finance leases	1 308 414	-	-	1 308 414
Property and equipment	464 445	-	-	464 445
Intangible assets	706 324	-	-	706 324
Current income tax assets	18 722	-	-	18 722
Deferred income tax assets	106 696	-	-	106 696
Tax assets other than income tax	19 761	-	-	19 761
Other assets	1 236 776	206 443	29	1 443 248
Total assets	**67 104 218**	**4 350 590**	**500 595**	**71 955 403**
Liabilities				
Amounts due to credit institutions	7 030 499	13 947 276	6 465	20 984 240
Derivative financial liabilities	79 161	-	-	79 161
Amounts due to customers	14 817 223	3 742 273	157 812	18 717 308
Debt securities issued	5 972 196	-	-	5 972 196
Other borrowed funds	-	11 174 828	-	11 174 828
Current income tax liabilities	2 014	-	-	2 014
Tax liabilities other than income tax	22 418	-	-	22 418
Other liabilities	414 434	3 130	1 884	419 448
Subordinated debt	-	703 230	-	703 230
Total liabilities	**28 337 945**	**29 570 737**	**166 161**	**58 074 843**
Net position	**38 766 273**	**(25 220 147)**	**334 434**	**13 880 560**
Credit related commitments	**10 595 232**	**228 982**	**430**	**10 824 644**

Assets, liabilities and credit related commitments are allocated based on the country in which the counterparty performs its business activities. Cash on hand and property and equipment are allocated based on the country in which they are physically held. The Bank's operations include transactions with counterparties that operate in OECD countries, primarily Italy, Luxemburg, Germany, United States and United Kingdom.

The geographical concentration of assets and liabilities as at 31 December 2013 is as follows:

	Russia	*OECD*	*CIS and other countries*	*Total*
Net position	**30 564 589**	**(16 463 951)**	**54 161**	**14 154 799**
Credit related commitments	**8 891 039**	**576 018**	**-**	**9 467 057**

Liquidity risk

Liquidity risk is the risk of a potential loss arising incase the Bank is unable to meet its financial obligations as they fall due.

Liquidity risk exists when maturities of assets and liabilities do not match. The matching and/or controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective to ensure that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

(Thousands of Russian Roubles)

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Treasury Division receives liquidity reports from the Market Risk Department on a daily basis. In addition, the Treasury Division prepares its own managerial reports and calculations. Based on them the Treasury Division monitors Bank's liquidity position within the defined limits in order to meet the CBR and ISP liquidity ratio requirements and payment obligations resulting from deposit withdrawals and financial commitments of the Bank.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by Market Risk Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a regular basis. Decisions on liquidity management are made by the Financial Risk Committee and implemented by the Treasury Division.

The liquidity position is also assessed and managed by the Bank, based on certain liquidity ratios calculated on a daily basis in accordance with the requirements of the CBR. The following table shows the mandatory liquidity ratios calculated as at 31 December 2014 and 2013.

As at 31 December, these ratios are as follows:

	Requirement	***2014, %***	***2013, %***
Instant Liquidity Ratio (N2)	Not less than 15%	61.9	51.6
Current Liquidity Ratio (N3)	Not less than 50%	75.7	77.5
Long-Term Liquidity Ratio (N4)	Not more than 120%	78.7	56.5

The table below shows the structure of assets and liabilities as at 31 December 2014 in accordance with their contractual maturity with the exception of available-for-sale securities that are shown in the category “Less than 1 month” because of their high liquidity.

Included in overdue loans to customers are wholly overdue loans and partially overdue loans but only in the amount of overdue payments.

(Thousands of Russian Roubles)

	On demand	*Less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Overdue or no stated maturity*	*Total*
Assets								
Cash and cash equivalents	6 432 026	-	-	-	-	-	-	6 432 026
Mandatory cash balances with the Central Bank of the Russian Federation	203 120	34 965	12 875	29 122	4 399	793	-	285 274
Amounts due from credit institutions	-	1 225 168	-	1 026 904	-	-	-	2 252 072
Available-for-sale securities:								
- held by the Bank	-	1 994 063	-	-	-	-	4 410	1 998 473
- pledged under sale and repurchase agreements								
Derivative financial assets	-	30 436	-	-	-	-	-	30 436
Loans to customers		3 895 930	9 090 533	20 324 911	19 335 021	626 495	3 616 622	56 889 512
Net investments in finance leases	-	54 279	146 367	538 717	516 655	-	52 396	1 308 414
Property and equipment							464 445	464 445
Intangible assets	-	-	-	-	-	-	706 324	706 324
Current income tax assets	-	-	-	5 457	13 265	-	-	18 722
Deferred income tax assets	-	-	-	-	-	-	106 696	106 696
Tax assets other than income tax	-	3 657	16 082	22	-	-	-	19 761
Other assets	88 564	731 962	184 909	28 133	164 780	-	244 900	1 443 248
Total assets	**6 723 710**	**7 970 460**	**9 450 766**	**21 953 266**	**20 034 120**	**627 288**	**5 195 793**	**71 955 403**
Liabilities								
Amounts due to credit institutions	239 876	962 074	1 571 408	3 738 345	14 472 537	-	-	20 984 240
Derivative financial liabilities	-	79 161	-	-	-	-	-	79 161
Amounts due to customers	13 327 144	2 294 105	844 726	1 910 726	288 607	52 000	-	18 717 308
incl. amounts due to individuals	*1 423 963*	*429 721*	*446 689*	*1 777 947*	*225 241*	-	-	*4 303 561*
Debt securities issued	-	-	-	5 972 196	-	-	-	5 972 196
Other borrowed funds	-	2 042 372	-	9 132 456	-	-	-	11 174 828
Current income tax liabilities	-	2 014	-	-	-	-	-	2 014
Tax liabilities other than income tax	-	18 964	3 454	-	-	-	-	22 418
Other liabilities	31 633	1 153	122 793	214 348	39 277	2 712	7 532	419 448
Subordinated debt	-	-	-	703 230	-	-	-	703 230
Total liabilities	**13 598 653**	**5 399 843**	**2 542 381**	**21 671 301**	**14 800 421**	**54 712**	**7 532**	**58 074 843**
Net position	**(6 874 943)**	**2 570 617**	**6 908 385**	**281 965**	**5 233 699**	**572 576**	**5 188 261**	**13 880 560**
Accumulated gap as at 31 December 2014	**(6 874 943)**	**(4 304 326)**	**2 604 059**	**2 886 024**	**8 119 723**	**8 692 299**	**13 880 560**	
Accumulated gap as at 31 December 2013	**(8 867 208)**	**(3 099 636)**	**3 178 243**	**13 300 869**	**8 625 577**	**9 433 624**	**14 154 799**	

(Thousands of Russian Roubles)

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

Overdue liabilities, such as term deposits not withdrawn by the customers, are classified within the "On demand" category. Mandatory cash balances with the CBR are allocated between the different maturity categories in accordance with the maturities of the liabilities to which they relate.

Repayments which are subject to notice are treated as if notice is to be given immediately. However, the Bank expects that many customers will not request early repayment.

(Thousands of Russian Roubles)

The maturity profile of financial liabilities and credit related commitments as at 31 December 2014 based on contractual undiscounted repayment obligations is as follows:

	On demand	*Less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*	*Carrying amount*
Financial liabilities								
Amounts due to credit institutions	239 876	1 106 029	1 836 458	4 836 653	15 862 030	-	**23 881 046**	**20 984 240**
Amounts due to customers	13 327 144	2 307 275	852 281	1 985 374	313 341	52 000	**18 837 415**	**18 717 308**
incl. amounts due to individuals	*1 502 390*	*431 041*	*452 516*	*1 847 669*	*247 839*	-	***4 481 455***	***4 303 561***
Debt securities issued	-	-	-	6 170 173	-	-	**6 170 173**	**5 972 196**
Other borrowed funds	-	2 060 026	-	9 431 254	-	-	**11 491 280**	**11 174 828**
Other liabilities	39 165	1 153	122 793	214 348	39 277	2 712	**419 448**	**419 448**
Subordinated debt	-	-	6 602	723 035	-	-	**729 637**	**703 230**
Derivative financial instruments								
- inflow	-	(4 563 786)	-	-	-	-	**(4 563 786)**	**(30 436)**
- outflow	-	4 612 511	-	-	-	-	**4 612 511**	**79 161**
Total financial liabilities	**13 606 185**	**5 523 208**	**2 818 134**	**23 360 837**	**16 214 648**	**54 712**	**61 577 724**	**58 019 975**
Credit related commitments	**10 824 644**	-	-	-	-	-	**10 824 644**	**10 824 644**

(Thousands of Russian Roubles)

The maturity profile of financial liabilities and credit related commitments as at 31 December 2013 based on contractual undiscounted repayment obligations is as follows:

	On demand	*Less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*	*Carrying amount*
Financial liabilities								
Amounts due to credit institutions	37 605	432 307	2 284 543	4 338 866	11 280 961	-	**18 374 282**	**16 223 249**
Amounts due to the Central Bank of the Russian Federation	-	729 958	-	-	-	-	**729 958**	**728 298**
Amounts due to customers	13 189 007	1 577 573	790 034	2 138 972	1 208 734	52 000	**18 956 320**	**18 722 956**
incl. amounts due to individuals	*1 510 903*	*486 526*	*449 615*	*1 626 049*	*1 160 131*	-	***5 233 224***	***5 019 916***
Debt securities issued	-	-	-	743 700	8 518 099	-	**9 261 799**	**8 140 048**
Other borrowed funds	-	-	-	3 720 568	4 926 034	-	**8 646 602**	**8 092 697**
Other liabilities	123 895	3 217	47 634	87 644	93 153	2 154	**357 697**	**357 697**
Subordinated debt	-	100 132	3 832	94 941	424 443	-	**623 348**	**590 732**
Derivative financial instruments								
- inflow	-	(1 613 314)	(1 091 527)	-	-	-	**(2 704 841)**	**(20 606)**
- outflow	-	1 607 193	1 077 048	-	-	-	**2 684 241**	**6**
Total financial liabilities	**13 350 507**	**2 837 066**	**3 111 564**	**11 124 691**	**26 451 424**	**54 154**	**56 929 406**	**52 835 077**
Credit related commitments	**9 467 057**	-	-	-	-	-	**9 467 057**	**9 467 057**

The total gross inflow and outflow disclosed in the tables above is the contractual, undiscounted cash flow on the financial liability or commitment.

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits to individuals upon demand of a depositor. In the tables above these deposits are classified in accordance with their stated maturity and are disclosed by each time band.

(Thousands of Russian Roubles)

Market risk

Market risk is the risk that the fair value of assets or future cash flows of financial instruments will diminish due to changes in the interest rates, currency rates and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

Market risks arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return of risk.

Overall authority for market risk is vested in the Financial Risks Committee. Market risk limits are approved by the Board of Directors based on recommendations of the Risk management function and the Financial Risks Committee.

The Bank manages its market risk by setting open position and other limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Board of Directors.

The Bank classifies exposures to market risk into either trading or non-trading positions. For risk management purposes the Bank calculates the same risk indicators on the available-for-sale (AFS) portfolio as for the trading portfolio. The market risk for the trading as well as for the AFS portfolio is managed and monitored based on Value at Risk ("VaR") methodology, which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analysis.

Market risk – Trading and AFS positions

The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period.

For the purposes of interest rate risk calculations for fixed income securities the information on interest rates volatility and correlation is received from the ISP Group on a daily basis.

Although VaR is a valuable tool in measuring risk exposures, it has a number of limitations:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate;
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

To determine the reliability of the VaR model, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR model. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR limits have been established for available-for-sale portfolio, and exposure is calculated and monitored daily against the limits set by the Board of Directors. As at 31 December 2014, VaR for available-for-sale portfolio is RUB 27 722 thousand (2013: RUB 1 055 thousand).

Market risk – Non-Trading positions

Interest rate risk

Interest rate risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the assets, liabilities and unrecognised positions sensitive to such changes.

(Thousands of Russian Roubles)

Interest rate risk includes the following:

- Repricing Risk - the risk linked to the time differences in maturities (for fixed rate positions) and in the repricing dates (for floating rate positions);
- Yield Curve Risk - the risk linked to changes in the slope and shape of the yield curve;
- Basis Risk - the risk linked to the mismatch in the rates to be received and paid on different instruments, with similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and interest margins for assets, liabilities and unrecognised positions with similar maturities or repricing frequencies.

The Bank uses the following methods to measure interest rate risk:

Sensitivity of the Fair Value measures the changes in the fair value of assets, liabilities and unrecognised positions resulting from a parallel rise in the discount curves by 100 b.p. To calculate the fair value, the discount curves which are suitable for measuring individual financial instruments are applied.

An analysis of sensitivity of the fair value as at 31 December is as follows:

Currency	***2014***	***2013***
RUB	(122 989)	(123 449)
USD	7 215	10 210
EUR	(6 053)	1 889
Total	**(121 827)**	**(111 350)**

A parallel fall in the discount curves by 100 b.p. would have had the equal but opposite effect on the fair value of assets, liabilities and unrecognised positions.

Sensitivity of the Interest Margin measures a one-year impact on the interest margin resulting from a parallel rise of the interest rate curves by 100 b.p. This measure highlights the effect of changes in interest rates on the portfolio being divided into current and term products excluding assumptions on future changes in the structure of assets and liabilities. Therefore, it cannot be considered as a predictor of the future levels of the interest margin.

An analysis of sensitivity of the interest margin as at 31 December is as follows.

Currency	***2014***	***2013***
RUB	8 812	17 933
USD	44 616	17 506
EUR	(9 663)	(552)
Total	**43 765**	**34 887**

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at floating interest rates. In practice, interest rates are generally fixed on a short-term horizon. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the interest rate in the event of a significant change in the market interest rates. Additionally, interest rates for long-term loans in foreign currencies are linked to LIBOR and EURIBOR.

The Board of Directors sets limits on the potential loss from interest rate risk that may be undertaken. These limits are regularly monitored.

(Thousands of Russian Roubles)

Currency risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Open currency positions limits, set by the Central Bank of Russia, are monitored on a daily basis The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	RUB	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	2 964 760	853 527	2 609 888	3 851	6 432 026
Mandatory cash balances with the Central Bank of the Russian Federation	285 274	-	-	-	285 274
Amounts due from credit institutions	100 000	1 125 168	1 026 904	-	2 252 072
Available-for-sale securities:					
- held by the Bank	1 998 473	-	-	-	1 998 473
- pledged under sale and repurchase agreements	-	-	-	-	
Derivative financial assets	28 001	2 435		-	30 436
Loans to customers	47 003 905	7 876 350	2 009 257	-	56 889 512
Net investments in finance leases	1 273 574	-	34 840	-	1 308 414
Property and equipment	464 445	-	-	-	464 445
Intangible assets	706 324	-	-	-	706 324
Current income tax assets	18 722	-	-	-	18 722
Deferred income tax assets	106 696	-	-	-	106 696
Tax assets other than income tax	19 761	-	-	-	19 761
Other assets	611 358	744 650	87 240	-	1 443 248
Total assets	**55 581 293**	**10 602 130**	**5 768 129**	**3 851**	**71 955 403**
Liabilities					
Amounts due to credit institutions	17 030 719	3 953 521	-	-	20 984 240
Amounts due to the Central Bank of the Russian Federation	-	-	-	-	
Derivative financial liabilities	35 963	34	43 164	-	79 161
Amounts due to customers	11 672 585	1 162 919	5 878 070	3 734	18 717 308
Debt securities issued	5 972 196	-	-	-	5 972 196
Other borrowed funds	3 837 983	7 336 845		-	11 174 828
Current income tax liabilities	2 014	-	-	-	2 014
Tax liabilities other than income tax	22 418	-	-	-	22 418
Other liabilities	373 508	30 457	15 391	92	419 448
Subordinated debt	-	703 230	-	-	703 230
Total liabilities	**38 947 386**	**13 187 006**	**5 936 625**	**3 826**	**58 074 843**
Net recognised position	**16 633 907**	**(2 584 876)**	**(168 496)**	**25**	**13 880 560**
Net unrecognised position	**(2 180 092)**	**1 981 898**	**198 194**	**-**	**-**
Credit related commitments	**4 417 416**	**5 876 250**	**504 053**	**26 925**	**10 824 644**

The exposure to currency risk as at 31 December 2013 is as follows:

	RUB	*USD*	*EUR*	*Other currencies*	*Total*
Net recognised position	**12 011 195**	**2 179 617**	**(36 032)**	**19**	**14 154 799**
Net unrecognised position	**2 459 666**	**(2 684 516)**	**224 850**	**-**	**-**
Credit related commitments	**4 506 984**	**3 883 844**	**1 076 229**	**-**	**9 467 057**

The net unrecognised position represents the notional currency position on deliverable forward and spot foreign exchange contracts outstanding as at 31 December 2014 and 2013. As the borrowings in foreign currencies from international financial institutions represent a significant part of the Bank's liabilities, it is the Bank's policy to effectively hedge against risks associated with its net currency position. Such activities do not qualify as hedging relationships in accordance with IFRS.

(Thousands of Russian Roubles)

The Bank has a significant part of loans to customers denominated in foreign currencies. Depending on the revenue sources of the borrower, the appreciation of the currencies against the RUB may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2014 and 2013 on its non-trading positions and foreign currency derivatives. The analysis calculates the effect of a reasonably possible movement of the currency rates against the RUB, with all other variables held constant on the profit or loss and equity before income tax expense.

Currency	***2014***	***2013***
10% appreciation of USD against RUB	(60 298)	(50 490)
10% appreciation of EUR against RUB	2 970	18 882
Total	**(57 328)**	**(31 608)**

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events. This definition includes legal risk but does not include strategic and reputation risks.

For managing operational risk the Bank follows operational risk guidelines and methodology of the Central Bank of the Russian Federation and Intesa Sanpaolo Group in compliance with Basel recommendations as well as locally-developed methodologies and tools. The Bank, in accordance with the Intesa Sanpaolo Group's requirements and the regulatory suggestions, developed an operational risk framework consisting of operational risk policy and other internal regulations in order to perform an effective operational risk management and support the Bank's business.

Operational risk management is a structured system of processes, functions, responsibilities and resources aimed at detection and monitoring, assessment, minimization and control of operational risks, as well as providing their effective prevention in accordance with the requirements of the ISP Group and external legislation. Operational risk management is directly connected with the level of corporate governance and corporate ethics of the Bank.

The main methods of identification and monitoring of operational risks are collection and recording of data on operational risk events and key risk indicators system, as well as analysis of the new and existing procedures. All operational risk events are registered in the operational risks' database, analysed and regularly brought to attention of the Management of the Bank. Additionally, all new and updated operations, products and processes are analysed with respect to operational risk sensitivity.

The Bank conducts operational risks assessment in accordance with the methodology of the ISP Group. Risk assessment is an independent risk assessment, consisting of two parts: assessment of the impact of risk factors and their level of control, as well as scenario analysis.

In addition, the Bank creates reserves for losses from operational risk events, and calculates the required capital to cover operational risk.

In order to minimize and control operational risks the Bank implements preventive measures against operational risk events or losses associated with the realisation of operational risk events, and suggests a series of measures aimed at reducing the impact of the causes of risk (risk factors), the transfer of risk (outsourcing), decrease (limit) the size of the potential operating losses (insurance), as well as actions to minimize the effects and potential losses in case of realisation of operational risk events.

The Bank applies the following methods to minimize the risk:

- establishing organisational structure in accordance with the requirements of the Group and regulatory bodies;
- ensuring selection of a sufficient number of qualified professionals, conducting their training on an ongoing basis, organisation of interchangeability;
- ensuring the principle of separation of powers and accountability of transactions, effective cooperation and communication of personnel; clear description of the responsibilities of each employee;
- compliance with labour laws;
- remuneration of the Bank in accordance with market conditions and requirements of the Group;
- ensuring the confidentiality of the employees and the clients data;
- ensuring proper working conditions for the employees of the Bank;
- developing and updating the internal rules and procedures for performance of banking operations and other transactions in order to eliminate (minimize) the impact of operational risk factors, and comply with the requirements of the local legislation and the Group;
- regulation and approval of any banking processes, transactions and other deals;

(Thousands of Russian Roubles)

- monitoring of performance and making amendments to any banking processes, operations and transactions;
- separation of powers, operation and monitoring activities;
- setting limits on banking operations and other transactions;
- adherence to the principles of accounting and reporting, regular reconciliation of accounts and supporting documents on banking and other transactions;
- use of proven technology and implementation of well-developed and studied technology, compliance of all systems (hardware and software) and technical documentation to the requirements of the Group;
- software testing prior to implementation;
- preventing unauthorised access to information systems of the Bank, maintenance of the established order of access to data;
- segregation of access rights and authorization in the systems of the Bank;
- other methods.

The Bank pays special attention to the measures to ensure continuity of financial and economic activity in the banking operations and other transactions, including contingency (business continuity) plans.

26. Fair values of financial instruments

Fair value hierarchy

The Bank uses the following fair value hierarchy for measuring fair values of financial instruments:

- Level 1: quoted market prices (unadjusted) in an active market for an identical instrument;
- Level 2: valuation techniques for which all significant inputs are observable, either directly or indirectly;
- Level 3: valuation techniques which use significant unobservable inputs.

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1	*Level 2*	*Total*
Financial assets			
Derivative financial assets	-	30 436	30 436
Available-for-sale securities:	**1 994 063**	**4 410**	**1 998 473**
- held by the Bank	1 994 063	4 410	1 998 473
	1 994 063	**34 846**	**2 028 909**
Financial liabilities			
Derivative financial liabilities	-	79 161	79 161
	-	**79 161**	**79 161**

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1	*Level 2*	*Total*
Financial assets			
Derivative financial assets	–	20 606	20 606
Available-for-sale securities:	**2 728 526**	**4 410**	**2 732 936**
- held by the Bank	1 937 261	4 410	1 941 671
- pledged under sale and repurchase agreements	791 265	–	791 265
	2 728 526	**25 016**	**2 753 542**
Financial liabilities			
Derivative financial liabilities	–	6	6
	–	**6**	**6**

As at 31 December 2014, the Bank has repossessed collateral in the amount of RUB 244 549 thousand (2013: RUB 200 326 thousand) that is measured at lower of cost and fair value less cost to sell, for which fair value was determined using inputs that belong to Level 3 in the fair value hierarchy.

The estimation of fair value of repossessed collateral is based on benchmarking assessment. The Bank adjusts the estimated market value of similar property using the liquidity discounts. The discounts, applied by the Bank ranges from 15% to 30% for residential property; 40% to 50% for office property and 50% to 60% for regional residential property.

Assets for which fair value approximates carrying value

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair values of financial instruments carried at amortised cost.

For financial instruments carried not at fair value, the levels in the fair value hierarchy into which the fair values are categorised are as follows:

Thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**
Financial assets					
Loans to customers	-	-	53 818 359	53 818 359	56 889 512

The estimated fair value of remaining financial instruments carried at amortised cost approximates their carrying values. As at 31 December 2013 the estimated fair value of all financial instruments carried at amortised cost approximates their carrying values.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates.

The following assumptions are used by management to estimate the fair values of discounting future cash flows from loans and advances to customers. The following discount rates are used for discounting future cash flows from loans to customers:

	2014		
	Russian Roubles	**USD**	**EUR**
Loans to large corporate customers	27-29%	4-9%	3-7%
Loans to other corporate customers	14-36%	5-15%	5-14%
Loans to retail customers	22-30%	15-17%	17%

27. Related party transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the entity; has an interest in the entity that gives it significant influence over the entity; the party is an associate of the entity; the party is a member of the key management personnel of the entity or its parent.

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key management personnel. These transactions include loans, deposits and other transactions. These transactions are performed at market prices.

Since 2005 the Bank is a member of Intesa Sanpaolo Group. Intesa Sanpaolo Group members are entities comprising a banking group which has a leading position on the Italian market and a strong international presence, mainly in Central-Eastern Europe and the Mediterranean region.

(Thousands of Russian Roubles)

Intesa Sanpaolo Holding International SA (Luxembourg) is parent entity of the Bank as at 31 December 2014 owning 53.0228% of shares (2013: 39.7670%).

Intesa Sanpaolo S.p.A. (Italy) is the ultimate controlling party of the Bank as at 31 December 2014 and 2013.

The outstanding balances with the related parties as at 31 December are as follows:

	2014				***2013***			
	Intesa Sanpaolo S.p.A.	***Intesa Sanpaolo Holding International SA***	***Intesa Sanpaolo Group members***	***Key management personnel***	***Intesa Sanpaolo S.p.A.***	***Intesa Sanpaolo Holding International SA***	***Intesa Sanpaolo Group members***	***Key management personnel***
Cash and cash equivalents								
Correspondent accounts and overnight placements with other credit institutions	1 979 316	-	150 050	-	1 682 903	-	906	-
Amounts due from credit institutions								
Time deposits	1 125 168	-	-	-	3 966 597	-	-	-
Loans to customers								
Loans to customers as at 1 January, gross	-	-	-	333	-		-	4 754
Loans issued during the year	-	-	-	-	-	-	-	-
Loans repaid during the year	-	-	-	(19)	-	-	-	(4 419)
Other movements	-	-	-	-	-	-	-	-
Loans to customers as at 31 December, gross	-	-	-	314	-	-	-	335
Less: loan impairment allowance as at 31 December	-	-	-	(4)	-	-	-	(2)
Loans to customers as at 31 December, net	-	-	-	310	-	-	-	333
Amounts due to credit institutions								
Correspondent accounts	215 878	-	19 494	-	1 532	-	28 707	-
Term deposits	-	-	13 718 369	-	-	-	12 055 698	-
Other borrowed funds								
Other borrowed funds as at 1 January	-	8 092 697	-	-	-	8 698 962	-	-
Other borrowed funds received during the year	-	-	-	-	-	1 750 000	-	-
Other borrowed funds repaid during the year	-	-	-	-	-	(2 707 300)	-	-
Other movements	-	3 082 131	-	-	-	351 035	-	-
Other borrowed funds as at 31 December	-	11 174 828	-	-	-	8 092 697	-	-
Subordinated debt								
Subordinated debt as at 1 January	181 617	409 115	-	-	168 685	379 659	-	-
Deposits repaid during the year	(181 617)	-	-	-				
Other movements	-	294 115	-	-	12 932	29 456	-	-
Subordinated debt as at 31 December	-	703 230	-	-	181 617	409 115	-	-
Derivative financial instruments								
Notional amount of foreign exchange contracts	-	2 002 435	-	-	2 224 850	-	-	-
Derivative financial assets	-	2 435	-	-	20 179	-	-	-
Derivative financial liabilities	-	-	-	-	(6)	-	-	-
Guarantees received by the Bank on loans and credit lines to customers	-	1 036 159	-	-	406 250	-	-	-

(Thousands of Russian Roubles)

The related profit or loss amounts of transactions with the related parties for the year ended 31 December are as follows:

	2014				2013			
	Intesa Sanpaolo S.p.A.	*Intesa Sanpaolo Holding International SA*	*Intesa Sanpaolo Group companies*	*Key management personnel*	*Intesa Sanpaolo S.p.A.*	*Intesa Sanpaolo Holding International SA*	*Intesa Sanpaolo Group companies*	*Key management personnel*
Interest income								
Amounts due from credit institutions	24 207	-	1 579	-	44 911	-	2 241	-
Loans to customers	-	-	-	17	-	-	-	288
Impairment of loans	-	-	-	(2)	-	-	-	7
Interest expense								
Amounts due to credit institutions	(6 593)	-	(1 017 684)	-	(7 832)	-	(1 087 370)	-
Other borrowed funds	-	(449 196)	-	-	-	(421 896)	-	-
Subordinated debt	(2 161)	(18 547)	-	-	(4 935)	(15 315)	-	-
Net gains from foreign currencies	206 979	-	-	-	317 959	-	-	-
Fee and commission expense	(21 213)	-	(5 590)	-	(14 628)	-	(9 298)	-
Other general administrative expenses	-	-	(176 497)	-	(144 382)	-	-	-

Total remuneration of the Management Board members included in the personnel expenses for the year ended 31 December 2014 is RUB 33 259 thousand, including social contributions of RUB 2 954 thousand (2013: RUB 25 495 thousand, including social contributions of RUB 1 844 thousand).

Total remuneration of the Board of Directors for the year ended 31 December 2014 is RUB 16 575 thousand (2013: RUB 10 805 thousand).

As at 31 December 2014, included in guarantees received is the amount of RUB 997 085 thousand (2013: RUB 2 788 011 thousand), which is provided by Intesa Sanpaolo Group companies as counter-guarantees to the guarantees provided by the Bank. The Bank counter-guaranteed RUB 750 754 thousand in relation to guarantees issued by Intesa Sanpaolo Group companies as at 31 December 2014 (2013: RUB 33 278 thousand).

28. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- full compliance with the capital requirements imposed by the CBR and Russian legislation;
- maintaining the Bank's ability to continue as a going concern in order to maximise shareholder value and provide economic benefits to other parties;
- ensuring that the amount of capital is sufficient for business expansion and development.

The Bank monitors its capital adequacy using, among other measures, the ratios established by the Basel Capital Accord 1988, with subsequent amendments ("Basel Capital Accord"), and the ratios established by the CBR.

The Bank has complied with all externally imposed capital requirements as at 31 December 2014 and 2013.

The Bank manages its capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return on capital to the shareholders or issue equity securities. No changes were made in the objectives, policies and processes from the previous year.

(Thousands of Russian Roubles)

Capital adequacy under Russian Legislation

The Bank calculates amount of capital in accordance with Provision of the CBR dated 10 February 2003 No 215-P On Methodology of Calculation of Own Funds (Capital) of the Credit Crganisaitons (Provision of the CBR No 215-P) and Provision of the CBR dated 28 December 2012 No 395-P On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III) (Provision of the CBR No 395-P). Amount of capital calculated in accordance with Provision of the CBR No 215-P was used for prudential purposes till 31 December 2013. The amount of capital calculated in accordance with Provision of the CBR No 395-P is used for prudential purposes since 1 January 2014 and was used for information purposes during the period since 1 April 2013 till 31 December 2013.

As at 31 December 2013 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 10%. As at 31 December 2014 minimum levels of basic capital ratio (ratio N1.1), main capital ratio (ratio N1.2), own funds (capital) ratio (ratio N1.0) are 5.0%, 5.5% and 10.0%, accordingly. Since 1 January 2015 minimum level of ratio N1.2 is 6.0%.

As at 31 December 2014 and 2013, the Bank’s CBR-defined capital adequacy ratio exceeds the required statutory minimum and is as follows:

	2014	***2013***
Base capital	11 615 824	11 764 273
Additional capital	84 388	139 918
Main capital	**11 700 212**	**11 904 191**
Supplementary capital	-	-
Own funds (capital)	**11 700 212**	**11 904 191**
Risk-weighted assets	**82 215 362**	**75 981 042**
Ratio N1.1 (%)	**14.1%**	**15.6%**
Ratio N1.2 (%)	**14.1%**	**15.5%**
Ratio N 1.0 (%)	**14.2%**	**15.7%**

Capital adequacy ratio under the Basel Capital Accord (unaudited)

The Bank applies the Basel II Framework for the purpose of capital adequacy calculation using the simplified standardised approach for credit risk measurement, the standardised measurement method for market risk and the basic indicator approach for operational risk measurement. In 2014 the Bank changed the approach for calculation of Tier 1 capital and the approach of allocation of assets between banking and trading book. The Bank’s capital adequacy ratio as computed in accordance with the Basel Capital Accord as at 31 December is as follows:

	2014	***2013***
Share capital	10 820 181	10 820 181
Retained earnings and other capital reserve	3 112 077	3 326 152
Revaluation reserve	-	8 466
Deductions	(710 734)	-
Tier 1 capital	**13 221 524**	**14 154 799**
Subordinated debt (unamortised portion)	105 485	167 256
Less shares of credit institutions	-	(4 410)
Total capital	**13 327 009**	**14 317 645**
Banking book	65 032 443	58 600 348
Trading book	-	540 936
Risk-weighted assets	**65 032 443**	**59 141 284**
Tier 1 capital ratio	**20.3%**	**23.9%**
Total capital ratio	**20.5%**	**24.2%**

(Thousands of Russian Roubles)

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

Olga Lein — Acting Chairman of the Management Board

Tatyana Pavlycheva — Head of Accounting, Planning and Control Group/Chief accountant

27 February 2015